

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Chief Financial Officer**

**Natwar M. Gandhi**  
Chief Financial Officer



**MEMORANDUM**

**TO:** The Honorable Linda W. Cropp  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi  
Chief Financial Officer

**DATE:** June 4, 2002

**SUBJECT:** Fiscal Impact Statement: "Residential Tax Deferral and Budget Enhancement Amendment Act of 2002"

**REFERENCE:** Draft Legislation - Bill Number Not Available

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**Conclusion**

Funds are sufficient in the proposed FY 2003 through FY 2006 budget and financial plan to implement the Residential Tax Deferral and Budget Enhancement Amendment Act of 2002. The proposed legislation would increase local General Fund revenue by \$39.4 million by deferring the amount of owner-occupied real property tax that is greater than 125 percent of the previous year's amount. The administrative costs of the tax deferral would be significant, although they cannot be estimated at this time. The Office of Tax and Revenue predicts that it would take at least one year to modify the current process to prepare the Integrated Tax System and RPT2000 to handle the deferred real property tax amounts.

**Background**

The proposed legislation would defer owner-occupied real property taxes that are greater than 125 percent of the previous year's amount. It would amend the Owner Occupant Residential Tax Credit Emergency Act of 2002, which cancels increases in owner-occupied real property taxes that are greater than 125 percent of the previous year's amount.

The deferral proposed in the Residential Tax Deferral and Budget Enhancement Amendment Act of 2002 would equal the difference between the current property tax liability and 125 percent of the previous year's tax liability. The amount deferred would

be carried forward to the next tax year(s) without penalty or interest. The deferred amount would be due the next tax year(s), but would be subject to the 25 percent increase limit. As a result, owner-occupied real property taxes would remain under the 125 percent cap and the city will be able to recover lost real property tax revenues after property values stabilize.

The provisions of the proposed legislation would not be triggered if during the prior tax year: 1) the property value increase is the result of a zoning reclassification or a request by the homeowner; 2) the property was transferred to a new owner; 3) the real property assessment was erroneous; or 4) the majority of the property tax increase was due to improvements made to the property during the prior tax year.

### **Financial Plan Impact**

Funds are sufficient in the proposed FY 2003 through FY 2006 budget and financial plan to implement the provisions of the proposed legislation. Although the owner-occupied real property tax reductions are already budgeted in the budget and financial plan, this legislation would allow the District to recapture \$39.4 million of the local General Fund revenue lost via the Owner Occupant Residential Tax Credit Emergency Act of 2002.

Administrative costs of the tax deferral would be significant, although they cannot be estimated at this time. The Office of Tax and Revenue predicts that it would take at least one year to modify the current process to prepare the Integrated Tax System and RPT2000 to handle the deferred real property tax amounts.

The following table presents the estimated increases to local General Fund revenue.

<b>Estimated Increases to Local General Fund Revenue</b> (\$ in millions)					
	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>4-Year Total</b>
<b>Draft Legislation:</b> Increase in real property taxes from Residential Property Tax Deferral and Budget Enhancement Act of 2002	\$0	\$10.5	\$18.0	\$10.9	<b>\$39.4</b>